

May 26, 2020

Acquisition to strengthen packaged foods portfolio

ITC has acquired a 100% stake in Kolkata based Sunrise Food Pvt Ltd. The company is in the business of basic & blended spices and mustard oil with the brand name 'Sunrise'. Though we do not know the sales of the acquired company and the deal size, various media reports suggest Sunrise brand has a ~₹ 1000 crore sales in FY20 while the deal size is ~₹ 1800-2000 crore. The company is largely present in eastern India and operates through four factories in Agra, Bikaner, Jaipur and Kolkata. ITC is also present in spices business under Aashirvaad brand and is a leader in Telangana, Andhra Pradesh markets. The acquisition will help increase penetration of the Sunrise brand across the country while leveraging ITC's wide distribution network. The acquisition is part of ITC's strategy to increase its FMCG business to ₹ 1 lakh crore (FY19 sales ₹ 12500 crore) sales by 2030. We believe pulses & spices categories are large and completely dominated by unbranded or semi branded products, which presents a big opportunity to shift consumer demand towards packaged food, specifically in current circumstances where consumers would be increasingly preferring packaged/branded food products over loose/semi branded ones.

Lockdown to severely impact cigarette volumes

We also review our numbers as the lockdown got extended multiple times, which is likely adversely impacted cigarettes sales in H1FY21. We expect 8% decline in cigarette volumes for FY21 with ~10% price hike mainly to cover hike in excise duty in Budget 2020. We expect 10% growth in FMCG business in FY21 that includes the current acquisition of Sunrise Foods. We believe hotels business would be severely impacted in FY21E with H1FY21 likely to be near washout for the business. We expect 48% decline in hotels revenue for the company. Paperboard business may see flat sales in FY21. However, FY22 should be a reversal for cigarette volumes with 9% volume growth largely getting back to FY20 volumes. With record agri production, commodity prices are likely to remain benign. Further, a decline in crude based packaging cost is likely to aid operating margins. We expect the company to see a small uptick in margins despite large sales disruption during FY19-22E. We expect overall sales & earnings CAGR of 5.4% & 10%, respectively, in FY19-22E.

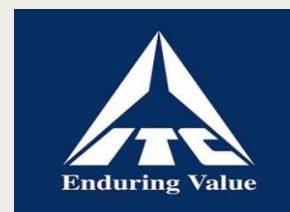
Valuation & Outlook

Though, ITC is likely to be adversely impacted by lockdown in FY21, there are multiple factors that can impact cigarette business for the next two to three years that are (1) unavailability of smuggled cigarette even post lockdown period, (2) possibility of heavy tax on non-cigarette tobacco products & (3) increase in sales due to increase in prices after excise hike. Moreover, we believe margins in FMCG business can easily reach double digit in next two to three years. We expect ITC to declare dividend of ₹ 16/share (company declared dividend policy of ~80% payout) along with special dividend this year. The stock is currently trading at attractive multiples of 13.6x FY22E earnings. We value on SOTP basis valuing cigarettes business at 15x FY22 earnings, FMCG segment at 5X FY22E sales. We continue to maintain **BUY** rating on ITC with a target price of ₹ 230/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	40254.7	44432.7	47764.2	46280.3	51980.1	5.4%
EBITDA	15541.0	17305.5	18625.7	18190.9	20530.4	5.9%
EBITDA Margin %	38.6	38.9	39.0	39.3	39.5	
Net Profit	11223.3	12464.3	15535.7	14560.4	16589.9	10.0%
EPS (₹)	9.24	10.26	12.79	11.99	13.66	
P/E	20.1	18.1	14.5	15.5	13.6	
RoNW %	21.3	21.5	24.1	20.7	21.7	
RoCE (%)	30.9	30.8	30.4	27.0	28.3	

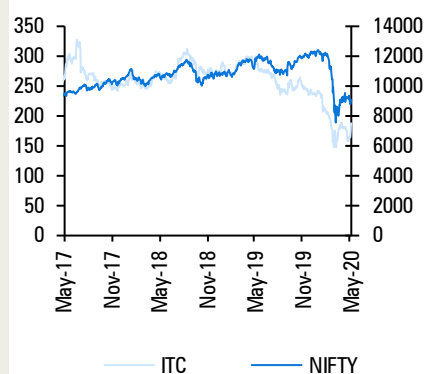
Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	225,941.6
Total Debt (FY19)	7.9
Cash and Investments (FY19)	16,275.3
EV	209,674.3
52 week H/L (₹)	310 / 134
Equity capital	1,225.9
Face value (₹)	1.0

Price Chart



Research Analyst

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Exhibit 1: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	52050.3	46280.3	-11.1	56893.2	51980.1	-8.6	We changed our estimate mainly due to the severe impact of lockdown on cigarettes sales. We also incorporate acquisition sales
EBITDA	20656.6	18190.9	-11.9	23145.5	20530.4	-11.3	
EBITDA Margin (%)	39.7	38.8	-89 bps	40.7	39.0	-172 bps	
PAT	16666.0	14560.4	-12.6	18779.0	16589.9	-11.7	
EPS (₹)	13.72	12.06	-12.1	15.46	13.74	-11.1	

Source: Company, ICICI Direct Research

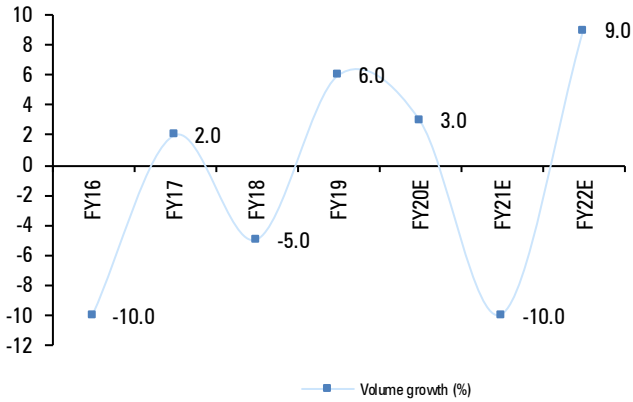
Exhibit 2: Assumptions

	Current						Earlier		Comments
	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Cigarettes (₹ cr)	34,002.0	22,894.0	20,713.0	22,489.3	22,265.1	24,874.9	23,973.0	26,783.0	
Cigarette Vol. Growth (%)	2.0	-4.0	6.0	3.0	-10.0	9.0	4.0	4.0	We expect cigarettes sales to see significant decline in sales in H1FY21
Cigarette Price Growth (%)	3.0	12.0	9.5	4.0	10.0	2.5	4.0	2.5	
FMCG - Others (₹ cr)	10,498.6	11,314.4	12,487.8	13,102.8	14,411.0	15,623.9	14,961.0	17,093.0	We expect fmcg sales to be impacted by manufacturing & supply chain disruption in FY21
Hotels (₹ cr)	1,329.3	1,404.1	1,648.2	1,973.5	1,021.3	1,912.8	1,931.3	1,979.0	Hotels business would see a washout in Q1FY21
Paperboards (₹ cr)	3,819.0	3,792.4	4,305.4	6,280.2	6,320.4	6,735.5	1,660.4	7,078.4	

Source: Company, ICICI Direct Research

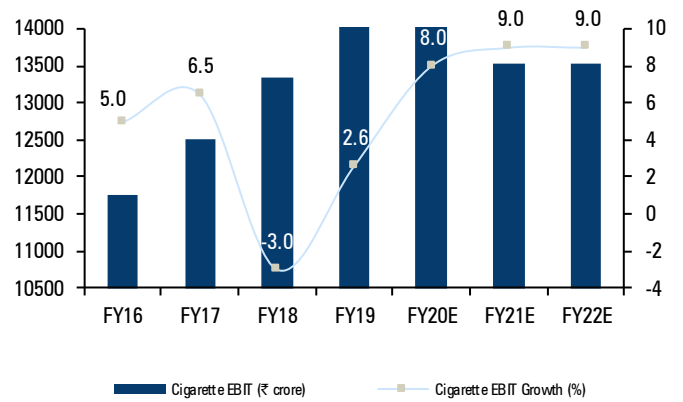
Key Metrics

Exhibit 3: Cigarette volume growth trend



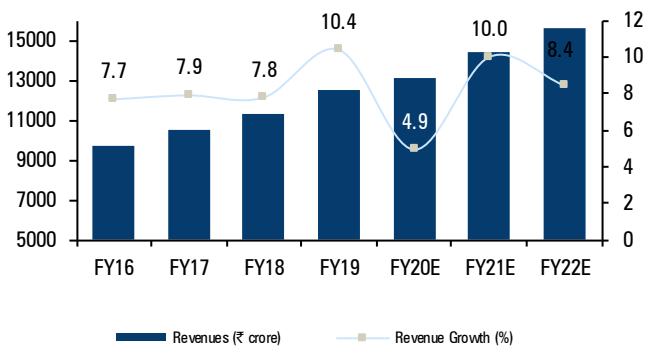
Source: Company, ICICI Direct Research

Exhibit 4: Cigarette EBIT growth trend



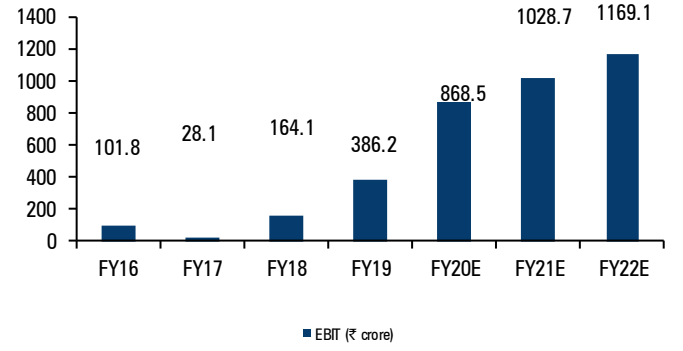
Source: Company, ICICI Direct Research

Exhibit 5: FMCG revenue (₹ crore) and growth (%)



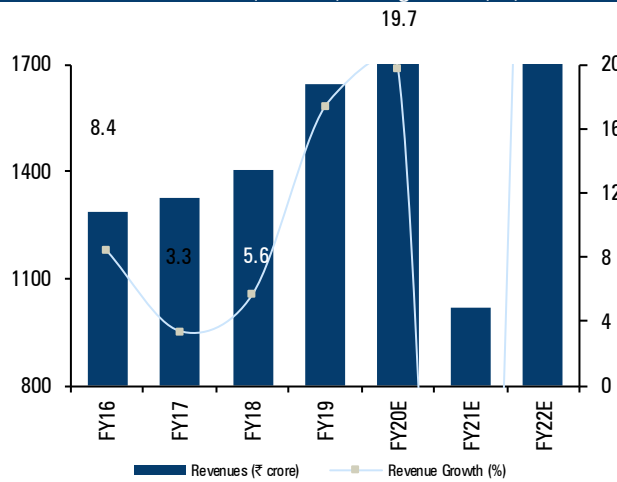
Source: Company, ICICI Direct Research

Exhibit 6: FMCG EBIT (₹ crore)



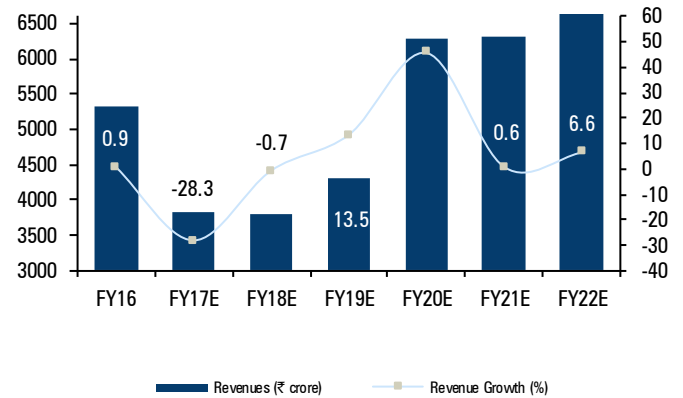
Source: Company, ICICI Direct Research

Exhibit 7: Hotel revenue (₹ crore) and growth (%)



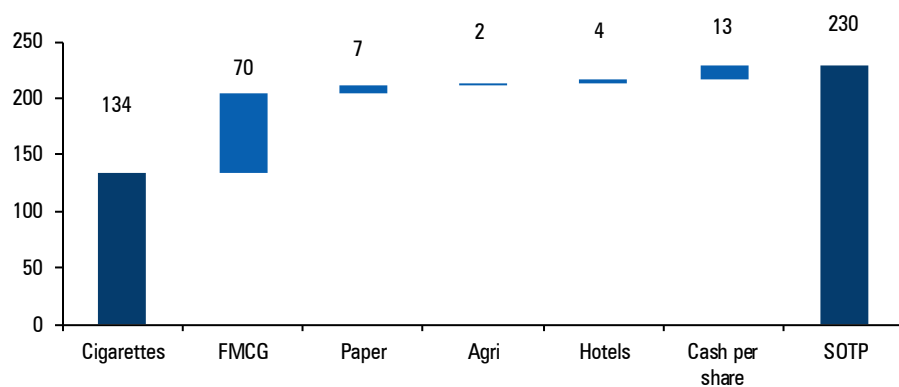
Source: Company, ICICI Direct Research

Exhibit 8: Paperboards revenue (₹ crore) and growth (%)



Source: Company, ICICI Direct Research

Exhibit 9: Sum of the parts valuation



Source: Company, ICICI Direct Research

Exhibit 10: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	44432.7	10.4	10.3	11.1	18.1	12.8	21.5	30.8
FY20E	47764.2	7.5	12.8	24.6	14.5	11.9	24.1	30.4
FY21E	46280.3	-3.1	12.0	-6.3	15.5	12.0	20.7	27.0
FY22E	51980.1	12.3	13.7	13.9	13.6	10.7	21.7	28.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Income	44,995.7	48,270.9	46,873.2	52,673.7
Growth (%)	10.8	7.3	-2.9	12.4
Raw Material Expenses	17,305.2	18,017.1	17,814.8	19,820.8
Employee Expenses	2,728.4	2,803.4	3,035.1	3,380.5
Marketing Expenses	976.5	975.1	930.1	1,145.0
Administrative Expenses	4,518.4	1,852.7	1,713.3	1,853.8
Excise Duty	788.7	788.7	2208.5	2208.5
Other expenses	2,161.6	5,996.9	5,189.0	5,943.2
Total Operating Expenditure	27,690.1	29,645.2	28,682.2	32,143.3
EBITDA	17,305.5	18,625.7	18,190.9	20,530.4
Growth (%)	11.4	7.6	-2.3	12.9
Depreciation	1,311.7	1,569.1	1,526.4	1,646.4
Interest	34.2	59.0	51.6	51.6
Other Income	2,484.5	3,310.8	2,852.9	3,346.7
PBT	18,444.2	20,176.2	19,465.8	22,179.0
Total Tax	5,979.8	4,640.5	4,905.4	5,589.1
PAT	12,464.3	15,535.7	14,560.4	16,589.9
Growth (%)	11.1	24.6	-6.3	13.9
EPS (₹)	10.3	12.8	12.0	13.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit After Tax	12,958.3	15,535.7	14,560.4	16,589.9
Add: Depreciation	1,311.7	1,569.1	1,526.4	1,646.4
(Inc)/dec in Current Assets	-1,048.8	-2,340.2	874.2	-4,070.1
Inc/(dec) in CL and Provisions	549.1	351.0	-943.8	257.5
CF from operating activities	11,749.1	15,115.5	16,017.3	14,423.7
(Inc)/dec in Investments	0.0	-977.5	-166.5	-2,586.0
(Inc)/dec in LT loans & advances	0.0	-50.0	0.0	0.0
(Inc)/dec in Fixed Assets	-2,759.5	-5,149.2	-3,020.0	-3,520.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-5,081.8	-6,276.7	-3,286.5	-6,206.0
Issue/(Buy back) of Equity	5.4	0.0	0.0	0.0
Inc/(dec) in loan funds	-6.9	10.0	10.0	10.0
Dividend paid & dividend tax	-7,486.9	-8,497.2	-9,346.9	-10,281.6
Others	0.0	55.0	-12.9	24.4
CF from financing activities	-5,493.4	-8,432.2	-9,349.8	-10,247.3
Net Cash flow	1,173.9	406.6	3,381.0	-2,029.5
Opening Cash	95.9	1,269.8	1,676.4	5,057.4
Cash with Bank	2,498.9	2,498.9	2,498.9	2,498.9
Closing Cash	3,768.7	4,175.3	7,556.3	5,526.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	1,225.9	1,225.9	1,225.9	1,225.9
Reserve and Surplus	56,723.9	63,762.4	68,975.9	75,284.2
Total Shareholders funds	57,949.8	64,988.3	70,201.8	76,510.1
LT Borrowings & Provisions	7.9	17.9	27.9	37.9
Deferred Tax Liability	2,044.1	2,044.1	2,044.1	2,044.1
Others Non-current Liabilities	174.5	229.5	216.6	241.0
Total Liabilities	60,176.4	67,279.9	72,490.4	78,833.1
Assets				
Gross Block	32,259.3	35,660.7	38,160.7	41,160.7
Less: Acc Depreciation	11,684.4	13,253.5	14,779.9	16,426.4
Net Block	20,574.9	22,407.1	23,380.7	24,734.3
Capital WIP	3,401.4	2,500.0	3,000.0	3,500.0
Net Intangible Assets	540.8	560.8	580.8	600.8
Non-current Investments	14,071.5	15,049.0	15,215.5	17,801.4
LT loans & advances	6.2	56.2	56.2	56.2
Current Assets				
Inventory	7,587.2	7,851.6	7,607.7	8,544.7
Debtors	3,646.2	3,925.8	3,803.9	4,272.3
Loans and Advances	5.0	5.4	5.2	5.9
Other Current Assets	2,055.2	2,617.2	2,535.9	2,848.2
Cash	3,768.7	4,175.3	7,556.3	5,526.8
Current Investments	12506.6	13740.4	13313.5	15665.2
Current Liabilities	9,621.6	9,972.6	9,028.8	9,286.3
Creditors	3,368.3	3,402.4	3,296.7	3,560.3
Provisions	25.2	27.1	26.3	29.5
Short term debt & other CL	6,228.0	6,543.0	5,705.8	5,696.5
Application of Funds	60,176.4	67,279.9	72,490.4	78,833.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	10.3	12.8	12.0	13.7
Cash EPS	11.3	14.1	13.2	15.0
BV	47.7	53.5	57.8	63.0
DPS	5.8	6.3	7.0	7.7
Cash Per Share	3.1	3.4	6.2	4.5
Operating Ratios (%)				
EBITDA Margin	38.5	38.6	38.8	39.0
PBT / Total Operating income	41.0	42.1	41.5	42.1
PAT Margin	27.7	32.2	31.1	31.5
Inventory days	62.3	60.0	60.0	60.0
Debtor days	30.0	30.0	30.0	30.0
Creditor days	27.7	26.0	26.0	25.0
Return Ratios (%)				
RoE	21.5	24.1	20.7	21.7
RoCE	30.8	30.4	27.0	28.3
RoIC	29.5	29.3	27.8	27.7
Valuation Ratios (x)				
P/E	18.1	14.5	15.5	13.6
EV / EBITDA	12.8	11.9	12.0	10.7
EV / Net Sales	5.0	4.6	4.7	4.2
Market Cap / Sales	5.1	4.7	4.9	4.3
Price to Book Value	3.9	3.5	3.2	3.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.8	3.0	3.4
Quick Ratio	1.9	2.0	2.2	2.5

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Colgate (COLPAL)	1,313	1,350	Hold	35,712	30.0	29.3	33.6	43.7	44.7	39.1	8.0	7.8	7.2	60.7	66.2	77.5	52.2	51.2	50.8
Dabur India (DABIND)	431	550	Buy	86,947	8.9	9.9	10.9	48.5	43.4	39.5	9.6	8.8	8.1	30.2	29.9	30.6	25.9	26.7	27.2
Hindustan Unilever (HINLEV)	1,987	2,250	Hold	468,000	31.2	33.5	41.3	63.7	59.2	48.1	12.2	11.6	9.7	82.5	24.4	30.3	85.7	20.2	25.0
ITC Limited (ITC)	186	230	Buy	225,942	12.8	12.0	13.7	14.5	15.5	13.6	4.7	4.9	4.3	30.4	27.0	28.3	24.1	20.7	21.7
Jyothy Lab (JYOLAB)	101	110	Hold	4,113	5.3	3.2	4.4	19.2	31.6	23.1	2.3	2.2	2.0	28.6	18.6	23.9	22.6	14.0	18.5
Marico (MARLIM)	317	300	Hold	36,513	8.1	7.8	9.5	39.2	40.4	33.5	5.0	5.2	4.4	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	16,215	18,000	Hold	161,127	204.3	230.9	269.4	79.4	70.2	60.2	13.1	12.1	10.7	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Product (TATGLO)	362	440	Buy	33,433	5.0	8.7	10.9	72.5	41.7	33.3	3.5	3.2	3.0	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,136	4,000	Buy	4,826	196.9	124.8	216.3	15.9	25.1	14.5	3.9	4.4	3.4	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	582	580	Reduce	17,662	16.6	9.9	18.1	35.0	58.8	32.1	4.4	3.5	2.5	15.5	11.3	16.3	14.2	8.8	14.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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